

Reflections on audits 2006–2012: Lessons from the past, challenges for the future



Des Pearson, Auditor-General

Six years ago I took up my appointment as Victoria's Auditor-General with a great sense of expectation and a keen awareness of the challenges of the role.

By any measure, the Victorian public sector is one of Australia's biggest businesses, employing more than 250 000 staff and managing assets of more than \$200 billion. It is also an increasingly complex enterprise, with services delivered through a diverse mix of departments, board-led entities, private sector contracts and partnerships with the community sector.

To provide Parliament with assurance on the performance and accountability of this large and complex operation, I have tabled some 200 reports on the results of a wide range of financial and performance audits conducted by my office. Their purpose was, and remains, to determine how efficiently, economically and effectively the Victorian public sector has implemented the policy objectives of the government of the day.

These reports have ranged across entities as small as rural cemetery trusts and as large as the Department of Health, from innovative social programs for vulnerable communities, to complicated financial arrangements for large-scale public infrastructure.

Each audit has been conducted to meet rigorous professional standards of evidence, natural justice and independence. Each report offers clear conclusions and authoritative advice without fear or favour.

Having made more than 1 300 recommendations, it is gratifying that almost all have been accepted by the agencies we audit.

Yet, as my tenure draws to a close, I believe that many of the problems identified over the past six years are far from resolved. It concerns me that, time after time, our audits identify the same shortcomings and the same failures to meet common challenges at the core of effective public administration.

Across the diversity of our topics and the broad range of entities we have covered, our audits have revealed a persistent and recurring set of shortcomings for public sector managers.

We have classified these issues into six key themes:

1. planning and delivery of services and infrastructure
2. quality information for decision-making
3. real governance and effective oversight
4. measuring and communicating performance
5. procurement and contract management
6. managing information transparently and securely.

This special edition of *Auditing in the Public Interest* provides an overview of these six common themes emerging from our 2006–2012 audit reports, reflecting on the issues identified and analysing risks that underpin each theme. It then poses some future challenges for public sector managers and decision-makers.

Tightening economic circumstances, growing population, shifting demographics, climate change and radical advances in information technology will all sharpen the need for the public sector to address these core capabilities.

Capitalising on the research and consultation that underpins our four-year forward audit program, we have also looked ahead and anticipated external factors on the horizon which could affect these pressure points in public sector management.

While my key statutory role has been to provide assurance to Parliament on the performance and accountability of the public sector, my office has also aimed to offer more than assurance—to be a true catalyst for improvement and genuine change in public sector management where it matters.

D D R Pearson
Auditor-General
11 December 2012

Planning and delivery of services and infrastructure

Common findings from audits

- Lack of robust and thorough assessment of needs and demand
- Flawed or inadequate forecasting
- Failure to plan effectively for future demand
- Inequitable provision across regions and communities

Delivering services and providing infrastructure are key activities of government. To be effective and efficient in meeting community needs and achieving government goals, services and infrastructure need to be both appropriately planned and then delivered.

Our audits have highlighted recurring shortcomings in the planning and delivery of services and infrastructure across the Victorian public sector. These shortcomings can be grouped under two main themes for public sector improvement:

- planning strategically
- delivering services where they are needed.

Planning strategically

Prominent among the major weaknesses we have found in planning for services and infrastructure is a lack of robust and demonstrated analysis of needs and options. Often, planning documents were hastily developed, narrowly focused, and failed to consider important user needs. Too often, agencies did not adequately engage with the public and failed to understand priorities, barriers to participation and levels of satisfaction of end-users.

Case study

'None of the four irrigation modernisation projects ... had undergone a robust assessment of the need to invest in the chosen asset solutions ... None of the projects followed the *Business Case Development Guidelines*, which require proposals first to demonstrate a need then assess options to meet that need.' (*Irrigation Efficiency Programs, 2009–10*)

Agencies regularly failed to accurately predict and understand future demand. Agencies did not always make adequate attempts—or did not have the capability—to determine future demand. Where agencies made attempts to foresee and address future growth, these predictions often had serious flaws, and led to suboptimal services and poor outcomes for users.

Case study

'VicRoads and LMA [Linking Melbourne Authority] ... fell short of the standards required to reliably forecast traffic and estimate projects' economic benefits when informing the decision to proceed ... [VicRoads] risks underestimating traffic growth and misinforming decision-makers about whether improved roads will successfully relieve congestion ... LMA's estimates of the economic benefits were unreliable because of weaknesses in the way it forecast traffic and calculated the benefits.' (*Management of Major Road Projects, 2010–11*)

Delivering services where they are needed

Throughout our audits, we have found that access to services and infrastructure was not always effectively targeted to those most in need—our more vulnerable and disadvantaged people and communities, including those in regional and rural areas.

Citizens have missed out on services because agencies failed to adequately target services to need and demand, and did not make eligible people aware of the support they could access. Persistent barriers to access included location, language and cultural background.

Case study

'Access to maternity services for antenatal, labour/birth and postnatal care is not equitable ... In particular, women at audited hospitals in metropolitan growth areas face increased costs and delays in accessing antenatal appointments due to fewer publicly available services.' (*Maternity Services: Capacity, 2011–12*)

Our audits have found that, when assessing peoples' needs or claims to a service, agencies were not always assessing them consistently. This has meant that agencies either failed to identify eligible people, or that they had not been prioritised fairly or given access to all of the services to which they were entitled. In some cases guidelines and advice on how to assess peoples' needs were unclear or missing. In other cases, there was no assessment process at all.

Case study

'The departments and their funded service providers do not consistently assess, either directly or by referral, the needs of carers they interact with to identify and provide assistance to those who may need and want support. It is therefore likely that some carers in need are missing out.' (*Carer Support Programs, 2012–13*)

Challenges for the future

Victoria has experienced significant population growth over the past decade, primarily driven by migration from other states and overseas. This population increase requires a commensurate growth in service delivery. Significant growth in 5- to 9-year-olds, people in their thirties, and older age groups will mean greater demand for early childhood services and primary schools, as well as health services catering for older Victorians.

Because existing infrastructure cannot readily accommodate the population influx, new high-cost infrastructure for roads, public transport, schools and health facilities is required.

In addition to large increases in demand, there are also challenges in planning and delivering services to rural areas, which are losing population to metropolitan and peninsular growth areas. Declining rural populations will mean that the unit cost and inefficiency of service delivery will rise.

Our audits suggest that agencies could better meet the challenge of delivering services and infrastructure by:

- undertaking adequate research about demand and needs, particularly for vulnerable and disadvantaged people
- developing guidance on how to identify and plan with particular user groups
- identifying barriers to access, and developing strategies to address these
- systematically measuring future projected need and developing operational guidelines and procedures on projection methodology
- developing a comprehensive understanding of service demand forecasting models
- undertaking longer-term service demand projections to examine how changes in assumptions or input variables will affect a program and its budget
- outlining how spending will match patterns of need and the potential impact of the investment
- improving, through training and guidance, consistency and fairness in assessing applications for services and allocating them
- seeking assurance that service provision is consistent.

Quality information for decision-making

Common findings from audits

- Gaps in information underpinning decisions
- Poor business case development
- Inaccurate or out-of-date information
- Lack of consolidation of relevant data
- Unclear analysis of information
- Lack of assurance over the quality of data

Decision-makers, be they a minister, a departmental secretary or CEO, or a person within an agency's internal management structure, require high-quality, relevant information to inform their decisions. While decisions around public programs will always have a degree of inherent uncertainty, our audits repeatedly found significant shortcomings in the information that agencies provided their decision-makers.

These weaknesses point to a need for the public sector to focus more on the:

- sufficiency of information to support decision-making
- accuracy and reliability of information.

Sufficiency of information to support decision-making

Our audits repeatedly found that agencies failed to collect enough information to support sound decision-making. In some cases, although briefings

to decision-makers covered all relevant issues, agencies failed to provide sufficient detail about these issues.

In other cases, there were obvious gaps in information, often relating to the evidence underpinning particular policy options, consultation with stakeholders, costs, and risks.

Case study

'DEECD [Department of Education and Early Childhood Development] does not have sufficient evidence to inform its workforce decision-making. It does not have basic data about the number of science and mathematics teachers needed or currently employed. Further, it does not have basic information about the qualifications or experience of science and mathematics teachers currently teaching, or their ongoing training and development needs.' (*Science and Mathematics Participation Rates and Initiatives, 2011–12*)

Even more seriously, there were instances where agencies had the relevant information but failed to provide it to decision-makers.

Weaknesses were also repeatedly found in business cases—which are essential tools for decision-making.

Several audits found that funding was approved for major projects without a business case having been developed. Where there were business cases, agencies often failed to provide sufficient information to decision-makers on the full range of options available, limiting the potential for all of these options to be given due consideration.

Case study

'A formal business case was not prepared for the HealthSMART program. A funding proposal was submitted by DHS [the Department of Human Services] to the government in February 2003 and approved in the 2003–04 Budget ... Due to this deficiency, a number of implementation issues that should have been forecast or analysed in a business case appear now to have manifested during the life of the program.' (*Delivering HealthSMART – Victoria's whole-of-health ICT strategy, 2007–08*)

Accuracy and reliability of information

Our audits have identified many instances where information provided to decision-makers was inaccurate. Data was often of poor quality or out of date, resulting in budget underestimates.

Often, agencies had several different databases holding relevant information, but because these were fragmented and often administered by different parties, important information was not consolidated. This meant decision-makers received incomplete information.

Case study

'In terms of effective and efficient data use, all councils stored bridge information across several, unlinked databases. This approach raised the risk that information was inaccurate or incomplete and is less efficient because it requires the movement and re-entry of data between databases ... Councils need to review the completeness, reliability and ease of use of the information they currently rely on to manage road bridges and make improvements where there are information gaps, vulnerabilities or inefficiencies.' (*Management of Road Bridges, 2011–12*)

Agencies did not always manage data well. It was not always clear how qualitative information, such as stakeholder consultation, had been taken into account in analysis and recommendations.

There was little assurance that this information had been analysed appropriately and that subsequent decisions were soundly based.

Case study

'... the plan was finalised with ... inadequate levels of rigour applied to estimate the costs, benefits and risks of some of the key component projects ... The level of rigour applying to the components of the plan varies considerably. For example, the food bowl upgrade costs represent the lowest level of rigour and were, at that time, based on a preliminary study by a stakeholder group.' (*Planning for Water Infrastructure in Victoria, 2007–08*)

For major decisions, there was often no third-party verification of the accuracy or completeness of the data, or of the methodologies and assumptions agencies used in analysis. In particular, there was a lack of validation of information that agencies received from third parties.

Case study

'We identified process and control weaknesses over the capture of timely and reliable information on contributed assets received from developers ... We noted in conducting our financial audits that significant reliance is placed on developers to provide data on the quantity, time of completion and value of assets contributed. Not all councils conducted a sufficient independent review of the nature, fitness for purpose, extent and valuation of contributed assets. Reviews that were conducted were generally not timely.' (*Local Government: Results of the 2006–07 Audits, 2007–08*)

Challenges for the future

Governments and public officials are now exposed to greater scrutiny than ever before—not just from integrity bodies such as VAGO, but also from the power and reach of the mass media, increased information flow from governments to the public, and more informed and assertive citizens.

In making future decisions, government will need to deal with this increased community demand for accountability and transparency, and clearly demonstrate high standards of information quality.

Our findings show that, in order to improve the rigour of decision-making within the Victorian public sector, agencies should focus on:

- identifying major gaps in information and developing strategies to address critical information shortfalls
- developing a whole-of-government approach to data collection and analysis for joined-up projects and where significant data is dispersed
- implementing quality assurance processes to review and confirm the accuracy of information, including the rigour of data modelling
- establishing better controls to detect or prevent erroneous data input
- informing decision-makers about data sensitivities and shortcomings
- verifying the accuracy of information provided by external parties.

Real governance and effective oversight

Common findings from audits

- Lack of sufficient guidance from agencies in leadership roles
- Insufficient oversight and monitoring by central agencies and accountable departments
- Unclear roles and responsibilities
- Governance for whole-of-government approaches not sufficiently coordinated

An effective and efficient public sector requires sound governance. However, as the operations of government become more complex and the public sector grows, gaps have emerged in governance arrangements.

Greater use of arm's length accountability, 'subsidiarity' and joined-up service delivery arrangements have led to confusion around roles and responsibilities and, ultimately, oversight deficits.

These identified shortcomings mean that the public sector has to give more attention to:

- clarity in complex service delivery arrangements
- coordination of whole-of-government approaches
- accountability for performance.

Clarity in complex service delivery arrangements

Our audits have repeatedly found unclear arrangements for agencies working together. This has created uncertainty and gaps in accountability, often compromising program outcomes, or allowing serious risks to manifest in areas of high public interest.

Lack of clarity has meant that agencies have often avoided ultimate responsibility and acted without accountability. Without clear assignment of ultimate responsibility, no single agency took on a leadership role.

Case study

'While there is cross-agency collaboration on...projects, it is not systematic or structured. ...arrangements for resolving cross-department blockages and issues are largely informal, lack transparency and depend heavily on the vigilance of individual staff.' (*Revitalising Central Dandenong, 2010–11*)

Coordination of whole-of-government approaches

Our audits have found joined-up arrangements between agencies were often not coordinated sufficiently. In some cases, while a whole-of-government response was warranted, this had not been reflected in the policy approach, meaning that agencies with aligned priorities and goals worked in isolation, or with little interaction or coordination. In other cases, while there was some degree of coordination, it was clearly inadequate, with only infrequent, high-level contact and insufficient collaboration.

Case study

'Various strategies and initiatives to prevent and reduce harm have been implemented, most notably since 2008. However, these efforts have been hampered by ... the lack of a whole-of-government policy position on the role of alcohol in society ... Instead of a coherent strategic framework consisting of a suite of targeted, evidence-based, complementary and well-coordinated initiatives, DOJ's alcohol initiatives have been largely fragmented, superficial, and reactive.' (*Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm, 2011–12*)

Accountability for performance

While the responsibility for performing an activity may be delegated, it is not possible to delegate ultimate accountability for performance and outcomes.

However, our audits found that departments with accountability for outcomes have not always overseen their activities effectively. Several audits across the past six years have recommended that oversight activities should be strengthened. In some cases, the lead designated agency was either ill-equipped or not appropriate for the oversight role. In other cases, there was insufficient oversight, despite obvious risks and available resources.

Some coordinating departments argued they had a purely advisory role when a stronger role was clearly warranted or legislated.

Case study

'Unclear responsibilities of lead departments ... have affected the ability of the governance arrangements to operate with maximum benefit ... DPC [Department of Premier and Cabinet] should exercise firmer leadership in administering Part 6 of the Act and implementation of the CIP [Critical Infrastructure Protection] framework.' (*Preparedness to Respond to Terrorism Incidents: Essential services and critical infrastructure, 2008–09*)

'... as a consequence of this ongoing lack of acceptance of its responsibilities as alerted to by the Auditor-General and now, the Committee, the Department has not adequately supported the Premier, as head of Government and 'Minister' ultimately responsible and accountable to Parliament and the Community for critical infrastructure protection arrangements across the whole-of-government. The implications of this deficiency have not yet been tested due to the absence of a relevant incident to date.' (*Public Accounts and Estimates Committee Review of the Auditor-General's Report on Preparedness to Respond to Terrorism Incidents: Essential Services and Critical Infrastructure, December 2011*)

Often, central and lead agencies did not provide enough guidance to operational agencies or other providers. Guidance was often incomplete or fragmented and led to unintended consequences, such as financial exposure and security risks.

Challenges for the future

As the public sector faces challenges that cannot be solved using traditional approaches, governments are increasingly embracing complex delivery arrangements. Joined-up approaches emerged in the late 1990s in the United Kingdom to resolve challenges that required a multi-dimensional response.

However, as the public sector increasingly embraces these delivery arrangements, there is a risk that it may mistakenly come to consider that the more complex a governance structure is, the greater its effectiveness.

The challenges of 'doing more with less' are being faced by all governments, so efficient approaches to governance and delivery are becoming more important. Our audits suggest that, in relation to governance, agencies should be focusing on:

- establishing clear governance arrangements including the nomination of an agency responsible for leadership, coordination and oversight
- strengthening oversight of subsidiary entities and monitoring compliance through activities such as evaluations and internal reviews
- developing and providing clear and comprehensive advice, guidance to support subsidiary bodies to implement activities in line with guidance
- leveraging oversight and monitoring roles by collating and disseminating examples of good practice to agencies
- providing assurance that accountable bodies effectively oversee performance and hold subsidiary agencies to account
- clearly outlining and communicating roles and responsibilities to reduce confusion and gaps, and to address all relevant functions
- systematically monitoring and reporting on the adequacy of cross-government coordination
- establishing regular and purposeful meetings for joined-up activities to better assure information sharing and coordination of initiatives
- establishing risk management arrangements for all joined-up initiatives.

Measuring and communicating performance

Common findings from audits

- Delays in establishing a performance measurement approach
- Lack of critical elements of measurement frameworks
- Lack of alignment of framework elements
- Performance measures not relevant or appropriate
- Outputs and activities measured instead of outcomes
- Post-project evaluations not conducted

Performance measurement and reporting is crucial for determining whether the public sector is operating effectively, efficiently and in compliance with laws and policies. Reporting on performance is important for the public sector to facilitate effective management, and to allow the community to be informed about the public sector's performance.

Our audits have found that agencies are frequently unable to clearly demonstrate how well they have performed their responsibilities. These weaknesses show that public sector agencies need to pay greater attention to:

- building credible performance measurement into program activities
- measuring outcomes.

Building credible performance measurement into program activities

Often, agencies have not identified performance measures early enough. This has meant that performance measurement has generally lagged behind activity, so agencies have not been fully accountable for their performance.

Delayed establishment of performance frameworks has also meant that adequate baseline data was not collected for comparison purposes.

Case study

'DOJ's [Department of Justice] capacity to conclude on the effectiveness of the strategy has been compromised by problems with the development and management of its evaluation framework. Delays to the evaluation framework's implementation have further reduced its usefulness ... This has affected DOJ's ability to ... establish baseline benchmarks to measure the extent of any improved performance since the strategy's introduction.' (*Taking Action on Problem Gambling, 2010–11*)

Performance measurement frameworks lacked key elements such as objectives, measures and targets, but even when these elements were in place, they were not clearly expressed. The inability of agencies to clearly articulate program objectives was a particular area of weakness.

Often, elements of performance measurement frameworks did not align with the overall purpose of the activity or even an agency's statutory requirements. Without this alignment, agencies could not effectively use data to measure their performance against objectives.

Victoria's current departmental performance reporting regime falls considerably short of acknowledged better practice. The focus of performance reporting has largely remained on output measures. While central agencies commenced implementing a new Performance Management and Reporting Framework in 1999, no work was done after 2003.

VAGO's recent findings on performance reporting show that not only does the problem remain, but the extent and quality of reporting has declined in the past 10 years.

Case study

'MPV [Major Projects Victoria] has developed performance indicators as part of its external and internal accountability requirements. Both seek to assess performance against departmental objectives, however, there are significant inadequacies. Both indicators differ and neither is related to MPV's objectives. They are neither relevant nor appropriate, and are therefore incapable of fairly representing actual performance.' (*Managing Major Projects, 2012–13*)

When reporting to Parliament and the public about performance against measures in documents such as annual reports, agencies gave insufficient commentary to contextualise results and help readers understand them.

Measuring outcomes

A recurring problem identified in our audits has been the failure of agencies to measure outcomes—focusing instead on outputs or activities. While identifying measurable and relevant outcomes is challenging, our audits found that agencies had made insufficient efforts to do so.

Case study

'Our review of a selection of performance statements identified that a large number of indicators related to key strategy areas are activity-based, focusing on whether an activity is completed rather than the impact of the activity.' (*Local Government: Results of the 2010–11 Audits, 2011–12*)

Evaluation is particularly important for activities such as built infrastructure or pilot projects, as these evaluations can inform similar projects in the future. However, our audits found that post-project evaluations were very rarely conducted. Where evaluations did occur, they frequently had weak methodologies that compromised their usefulness.

Challenges for the future

The global economic outlook remains uncertain, with financial markets and economic conditions expected to remain volatile over the short to medium term.

Victorian government revenue will be under pressure over the next two to five years due to a subdued housing market and falls in GST revenue and Commonwealth grants. Consequently, the government will have to find Budget savings if it is to prevent the state's financial position from deteriorating further.

The Better Services Implementation Taskforce will identify options for more efficient delivery of services and propose innovative programs and models.

Given the challenge to use public resources more efficiently, there will be increased demand both within and outside government for information on public sector performance that is accurate, relevant and understandable.

Agencies need to improve their performance measurement and reporting by:

- establishing performance measurement frameworks with clear objectives that are outcome-focused and measurable
- establishing performance indicators that monitor outcomes relevant to the program's objective, and which are measurable and auditable
- specifying predetermined, evidence-based targets against which to measure performance and collect baseline data to provide comparison for trend analysis
- establishing and enforcing a system of regular reporting against indicators
- providing detailed explanations of reported information, particularly regarding significant and material variations between targets and actual performance
- designing evaluation frameworks that measure the impact, effectiveness, efficiency and economy of programs and initiatives, and measure the extent to which initiatives have achieved their intended outcomes.

Procurement and contract management

Common findings from audits

- Inadequate consideration of available procurement options
- Failure to encourage sufficient competition
- Lack of assurance that procurement has followed a fair and impartial process
- Contracts lacking important elements, incentives and penalties
- Contract provisions not fully utilised to improve performance
- Lack of review of effectiveness of contracts

Increasingly, the Victorian public sector relies on the private sector to provide goods, services and infrastructure. Because it is spending taxpayers' money, the public sector needs to give assurance that its procurement is achieving value for money, just as contractors need assurance that the procurement process is fair, competitive and impartial.

Across our audits, we found that agency procurement approaches have often lacked transparency and have regularly led to missed opportunities to improve performance and achieve best value for money. Our audits have observed three key challenges that the public sector needs to focus on:

- selecting the most effective procurement approach
- fair and transparent procurement processes
- designing and managing contracts for performance.

Selecting the most effective procurement approach

Often, agencies have not adequately considered which procurement approach to use—public private partnerships (PPP), alliances or traditional purchasing approaches. This has resulted in a limited ability to demonstrate that the chosen approach achieved value for money and an appropriate allocation of risks.

Some agencies could not demonstrate that they had achieved value for money because they had failed to encourage sufficient competition, or could not demonstrate how they had evaluated competing bids.

Case study

'The University did not prepare a detailed and comprehensive procurement strategy as expected by the VGPB [Victorian Government Purchasing Board] guidelines. In the absence of such a strategy, the University was unable to show that it had rigorously assessed the procurement options available to deliver the VLSCI [Victorian Life Sciences Computation Initiative]. As a result, it cannot demonstrate that its chosen procurement approach represented the most effective use of public resources.' (*Victorian Life Sciences Computation Initiative, 2010–11*)

Fair and transparent procurement processes

Our audits have identified shortcomings in agencies' procurement procedures. There was often a lack of assurance that dealings maintained appropriate standards of fairness, impartiality, transparency and process integrity.

There were several instances where the roles of probity adviser and probity auditor were not separated. This meant that the probity auditor, who is responsible for providing assurance over good process, was not sufficiently independent of the process. This weakened confidence in the integrity of the process.

While agencies sometimes prepared plans about how they would make sure their procurements would follow a proper process, there was often no assurance that these plans were followed.

Case study

'There is insufficient documentary evidence and third-party assurance for VAGO to definitively conclude that there were no major breaches of probity in the allocation process. DOJ did not keep sufficient documentation to allow an independent verification to be performed on the auction results. As such, we are unable to confirm that each venue operator received their correct entitlements for the correct price.' (*Allocation of Electronic Gaming Machine Entitlements, 2010–11*)

Designing and managing contracts for performance

When designing contracts, agencies were often not clear enough or did not adequately specify requirements and performance expectations. This meant that contracts were open to different interpretations and it was harder for agencies to make providers accountable.

Some contracts contained neither sufficient performance incentives nor effective penalty regimes for poor performance. In some cases, poor contract design resulted in government not having the right to adequately monitor activities.

These issues should have been identified in post-contract reviews and addressed in future contracts, however, in many cases, reviews were not conducted.

Case study

'The design of the contract means that the NOC [NURSE-ON-CALL] service is not operating as efficiently or as effectively as it should. The penalty regime is not sufficient to guarantee good performance in periods of high call volume, the state cannot share cost savings that the service provider might make in using interstate staff to answer NOC calls, and it faces a challenge to service continuity when the current contract expires in 2011.' (*Delivery of NURSE-ON-CALL, 2010–11*)

Even where contract design was stronger, agencies did not always effectively use their contractual rights to improve performance. Agencies often failed to use monitoring and oversight provisions included in contracts, such as inspections or spot-checks, to seek assurance over the quality of delivered services.

When agencies were aware of poor performance, they did not always fully exercise the penalty arrangements in the contract.

Challenges for the future

Since the early 1990s, governments have increasingly used contracts with external providers and procurement models such as PPPs to deliver infrastructure and service delivery.

By 2006, according to the Public Accounts and Estimates Committee's *Report on private investment in public infrastructure*, Victoria had entered into PPP contracts worth around \$4.5 billion, or approximately 10 per cent of all public sector investment.

The *2011–12 Annual Financial Report for the State of Victoria* lists all 21 PPPs, and states that total commitments payable under all contracts had a nominal value of \$26.97 billion at 30 June 2012.

Our audits show that agencies can improve procurement and contract management within the Victorian public sector by focusing on:

- identifying and assessing all procurement options, including conducting a comparative cost-benefit analysis of options
- designing procurement processes to follow better practice guidance to achieve value for money and procedural fairness
- strengthening the application of probity standards in procurement
- separating the roles of probity auditor and probity advisor
- requiring formal probity sign-off that processes and documents meet probity plan requirements
- clearly specifying contractor performance standards and key deliverables in tender documentation
- developing service contracts with clear and enforceable performance measures
- enforcing the performance and accountability requirements of funding agreements and assessing contractor performance before payments are made
- evaluating contractors' performance and the appropriateness of contractual terms to inform the approach to the next contract.

Managing information transparently and securely

Common findings from audits

- Poor documentation of the rationale for decision-making
- Persistent weaknesses in controls over information system security
- Physical security of information at risk
- Poor reporting of information for transparency
- Public access to information impeded

Governments manage vast amounts of information, and the volume has increased with the rise of electronic information management and communication systems. However, making and maintaining complete, accurate and reliable evidence of business transactions is a recurring weakness in the Victorian public sector. Audits repeatedly revealed shortcomings related to:

- adequately recording decision-making processes
- securing confidential, sensitive or private information
- releasing information for transparency.

Adequately recording decision-making processes

Agencies have repeatedly failed to document important information about how their decisions or choices were made.

Often, the rationale for a decision or key aspects of the decision-making process was not recorded. Consequently, there was no clear way of understanding why or how particular decisions were made.

This dearth of information meant that many of our audits could not conclude whether decision-making had followed a sound process to allow accountable officers to justify their decisions.

Securing confidential, sensitive or private information

The public sector is expected to protect information from unauthorised access, theft and manipulation. However, our audits have regularly found shortcomings in security of information.

Every year as part of our financial audits, we examine the controls that agencies have in place around information security. Since 2007, nearly all of our financial audit reports have identified information security controls weaknesses.

Case study

Typical areas of weakness identified in our financial audits over the past six years include:

- *password security* – weaknesses in the standards applied to setting and renewing passwords, passwords with unlimited lifetimes, insufficient complexity required, number of failed log on attempts not limited
- *access controls* – excessive users with access rights to various systems, poor user access review processes, use of generic logon accounts, inappropriate system developer access
- *logging and monitoring of user activities* – failure to appropriately log and monitor user activities to identify possible security breaches, lack of monitoring of the activities of privileged users such as system administrators
- *storage* – storage of data containing sensitive information on shared network drives, ability to manually alter data
- *documenting of changes to networks and applications* – inadequate change management policies and procedures, lack of a complete register of all changes.

Performance audits have also identified significant problems with management of sensitive information.

Case study

'The confidentiality of personal information collected and used by the public sector can be, and has been, easily compromised. While we examined only three departments, the ability to penetrate databases, the consistency of our findings and the lack of effective oversight and coordination of information security practices strongly indicate that this phenomenon is widespread.' (*Maintaining the Integrity and Confidentiality of Personal Information, 2009–10*)

Weaknesses in information security were not limited to information systems, with the physical security of information often at risk. Information was often accessible to too many people, increasing the risk of uncontrolled information flows.

Case study

'The risk of unauthorised access to water and transport infrastructure control systems is high. This access could compromise these systems and affect the stable delivery of essential services to the community ... Operators are not properly securing their infrastructure control systems. As a result, staff and external parties can inappropriately access and manipulate these systems.' (*Security of Infrastructure Control Systems for Water and Transport 2010–11*)

Releasing information for transparency

Openness, accountability and transparency are fundamental principles of democratic government, and agencies are expected to appropriately release information to the public in accordance with the law. However, several audits found that agencies have not been releasing enough information to give assurance to the public that they are operating effectively and appropriately.

Case study

'Over time, apathy and resistance to scrutiny have adversely affected the operation of the [Freedom of Information] Act, restricting the amount of information being released. As a result, agencies are not meeting the object of the Act, which is "to extend as far as possible the right of the community to access information".' (*Freedom of Information, 2011–12*)

The practices of some agencies unnecessarily restricted the quantity and timeliness of the released information and in some cases they failed to comply with statutory requirements.

Challenges for the future

The Victorian Parliament's Economic Development and Infrastructure Committee's 2009 report on its *Inquiry into Improving Access to Victorian Public Sector Information and Data* found that 'government and the public sector are the largest holders of information of all kinds' and 'the widespread use of digital technologies has opened up a range of new possibilities and opportunities for the use of information'.

This significant growth in the volume of data, the changing expectations of users, as well as rapid technological change means the public sector will be challenged to continue to manage information effectively and efficiently into the future.

While technological change is a great enabler, sound information management, including appropriate behaviours and cultures, will be critical in order to capitalise on these opportunities.

In order to achieve sound information management agencies should focus on:

- implementing appropriate systems to maintain reliable, clear and thorough records of the rationale and criteria for decision-making, in accordance with government guidelines
- specifying minimum standards of documentation that provide an appropriate corporate record and audit trail
- strengthening quality assurance processes to confirm that personnel are maintaining complete, accurate and timely records
- establishing clear standards for user authorisation and for detecting unauthorised access to information or systems
- regularly monitoring logs and records of access and changes to information
- assessing the threats and vulnerabilities, both internal and external, to ICT systems, implementing appropriate controls to address them and regularly monitoring that the controls are in place and operating as required
- developing a strategic approach through proactively releasing information to the public.

Further reading

Theme 1 Planning and delivery of services and infrastructure

VAGO audits

Accommodation for People with a Disability (2007–08)
Managing Acute Patient Flows (2008–09)
The New Royal Children's Hospital (2008–09)
Delivery of NURSE-ON-CALL (2010–11)
Access to Ambulance Services (2010–11)
Access to Public Housing (2011–12)

Theme 2 Quality information for decision-making

VAGO audits

Buy-Back of the Regional Intrastate Rail Network (2008–09)
Withdrawal of Infringement Notices (2008–09)
Public Hospitals: Results of the 2008–09 Audits (2009–10)
Sustainable Management of Victoria's Groundwater Resources (2009–10)
Hazardous Waste Management (2009–10)
Allocation of Electronic Gaming Machine Entitlements (2010–11)

Theme 3 Real governance and effective oversight

VAGO audits

Managing Risk Across the Public Sector (2007)
Coordinating Services and Initiatives for Aboriginal People (2007–08)
Local Government: Results of the 2008–09 Financial Audits (2009–10)
Control of Invasive Plants and Animals in Victoria's Parks (2009–10)
TAFE Governance (2011–12)
Compliance with Building Permits (2011–12)

Other references

State Services Authority (2007) *Victorian approaches to joined up government: an overview*

Theme 4 Measuring and communicating performance

VAGO audits

Problem-Solving Approaches to Justice (2010–11)
Performance Reporting by Local Government (2011–12)
Environmental Management of Marine Protected Areas (2010–11)
Effectiveness of Victims of Crime Programs (2010–11)
Managing Major Projects (2012–13)
Investment Attraction (2012–13)

Other references

Department of Treasury and Finance (2012) *Annual Finance Report (incorporating Quarterly Financial Report No. 4)* 2011–12
Department of Premier and Cabinet (2012) *Better Services Implementation Taskforce: Terms of Reference*

Theme 5 Procurement and contract management

VAGO audits

Contracting and Tendering Practices in Selected Agencies (2007)
Piping the System: Incorporating the Wimmera–Mallee Pipeline and the Goldfields Superpipe (2007–08)
New Ticketing System Tender (2007–08)
Management of Prison Accommodation Using Public Private Partnerships (2010–11)
Procurement Practices in the Health Sector (2011–12)
Melbourne Markets Redevelopment (2011–12)

Other references

Public Accounts and Estimates Committee (2006) *Report on private investment in public infrastructure*
Department of Treasury and Finance (2012) *Annual Finance Report (incorporating Quarterly Financial Report No. 4)* 2011–12

Theme 6 Managing information transparently and securely

VAGO audits

Results of financial statement audits for agencies with 30 June 2006 balance dates (2007)
State Investment in Major Events (2007)
Agricultural Research Investment, Monitoring and Review (2007–08)
Public Hospitals: Results of the 2008–09 Audits (2009–10)
Managing the Requirement for Disclosing Private Sector Contracts (2009–10)
Portfolio Departments: Interim Results of the 2009–10 Audits (2010–11)

Other references

Economic Development and Infrastructure Committee (2009) *Inquiry into Improving Access to Victorian Public Sector Information and Data*

Reports tabled in 2012

The following audit reports were tabled in Parliament in 2012

Tabling date	Report title
8 February	State Trustees Limited: Management of Represented Persons
29 February	Public Transport Performance Government Advertising and Communications
14 March	Agricultural Food Safety Melbourne Markets Redevelopment
28 March	Access to Public Housing
18 April	Freedom of Information Casual Relief Teacher Arrangements Performance Reporting by Local Government
2 May	Personal Expense Reimbursement, Travel Expenses and Corporate Credit Cards
23 May	Payments to Visiting Medical Officers in Rural and Regional Hospitals Tertiary Education and Other Entities: Results of the 2011 Audits Management of Trust Funds in the Justice Portfolio
20 June	Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm Obsolescence of Frontline ICT: Police and Schools
15 August	Carer Support Programs Investment Attraction
29 August	Fare Evasion on Public Transport Programs for Students with Special Learning Needs
12 September	Energy Efficiency in the Health Sector
10 October	Consumer Participation in the Health System Managing Major Projects
24 October	Collections Management in Cultural Agencies Effectiveness of Compliance Activities: Departments of Primary Industries and Sustainability and Environment
14 November	Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011–12 Public Hospitals: Results of the 2011–12 Audits Water Entities: Results of the 2011–12 Audits Port of Melbourne Channel Deepening Project: Achievement of Objectives
28 November	Portfolio Departments and Associated Entities: Results of the 2011–12 Audits Local Government: Results of the 2011–12 Audits Prison Capacity Planning Student Completion Rates
12 December	Management of the Provincial Victoria Growth Fund Learning Technologies in Government Schools

In addition to these reports, VAGO tabled its Annual Plan 2012–13 and Annual Report 2011–12. For further information on all VAGO reports and publications visit our website: www.audit.vic.gov.au

Senior staff changes

Natalia Southern, Assistant Auditor-General, Performance Audit



Natalia joined VAGO as Assistant Auditor-General, Performance Audit, following the departure of Andrew Greaves, who left VAGO to take up the role of Auditor-General in Queensland.

Natalia is an economist with almost 20 years experience in a range of Commonwealth and state policy and regulatory bodies including the National Competition Council, Victorian Department of Treasury and Finance, the Productivity Commission and the Essential Services Commission.

Prior to joining the Auditor-General's Office, Natalia was a senior consultant at ACIL Tasman, where she advised government and private sector clients on energy, water and transport sector issues.

Nancy Stefanovski, Executive Director, Audit Support Group



Nancy was appointed Executive Director, Audit Support Group in September 2012 after five years in the Performance Audit Group as a Senior Audit Manager and Business Manager.

Her previous experience in the public sector includes contract management and the development of reporting and evaluation frameworks for major science and technology initiatives.

Nancy reports to the Chief Operating Officer, providing strategic advice on business solutions that contribute to VAGO's organisational sustainability. She is responsible for the Finance, Reports and Communications, Information Technology and Services, and People and Culture units.

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Further information

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